

# Implementing Balance Scorecard for Performance Measurement

Ashu Sharma\*

---

*The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. A major consideration in performance improvement involves the creation and use of performance measures or indicators. Through the analysis of data from the tracking processes, these measures or indicators themselves may be evaluated and changed to better support such goals. The success of the balanced scorecard or a similar device will depend on the clear identification of non-financial and financial variables and their accurate and objective measurement and linking the performance to rewards and penalties. The proponents of the balanced scorecard claim that it aligns with strategy leading to better communication and motivation which causes better performance.*

---

## Introduction

The success of any organization is reflected upon by its performance which is in turn highly dependent upon its strategies. In this era of cut-throat competition, what an organization requires is not just framing the right strategies, but also managing the same. The impact of the right strategies will automatically be reflected in the results. Moreover, any organization has to understand that it needs to give impetus not only towards the financial results, but also towards satisfaction of the customers, development of state-of-the-art technologies and creation of an environment of learning and growth. The balanced scorecard can be thought of as the 'strategic chart of accounts' for an organization. The long-term success of any organization is determined by the capabilities and the competencies it has developed.

One of the tools for organizational appraisal that is gaining immense popularity is the Balance Scorecard, developed by Robert S Kaplan and David P Norton in 1992. This tool brings a link between strategy and action. Due to this, the framework is gaining increasing importance among different business houses.

This innovative tool is unique in two ways compared to the traditional performance measurement tools. They are:

- It considers the financial indices as well as the non-financial ones in determining the corporate performance level; and
- It is not just a performance measurement tool, but also a performance management system.

---

\* Faculty, The Icfai Business School, Jaipur, India. E-mail: [ashu@ibsindia.org](mailto:ashu@ibsindia.org)

The aim of the balanced scorecard is to direct, help manage and change in support of the long-term strategy in order to manage performance. It acts as a catalyst for bringing in the 'change' element within the organization. It allows, for the first time, an organization to look ahead—using leading indicators—instead of only looking back using lagging indicators. The balanced scorecard puts strategy—the key driver of results today at the center of the management process.

The basic premise behind the balanced scorecard is quite simple: measurement motivates. Most of us have heard some version of the standard performance measurement clichés: “what gets measured gets done”, “if you don’t measure results, you can’t tell success from failure and thus you can’t claim or reward success or avoid unintentionally rewarding failure”, “if you can’t recognize success, you can’t learn from it; if you can’t recognize failure, you can’t correct it”, “if you can’t measure it, you can neither manage nor improve it”. However, what eludes many is the easy path to identifying truly strategic measurements without falling back on things that are easier to measure such as input, project or operational process measurements.

## Balanced Scorecard Basics

The balanced scorecard was developed by Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more ‘balanced’ view of organizational performance. While the phrase ‘balanced scorecard’ was coined in the early 1990s, the roots of this type of approach are deep and include the pioneering work of General Electric on performance measurement reporting in the 1950s and the work of French process engineers, who created the *Tableau de Bord*—a dashboard of performance measures—in the early part of the 20<sup>th</sup> century.

## Balanced Scorecard

- Translates vision and strategy;
- Defines the strategic linkages to integrate performance across organizations;
- Communicates objectives and measures to a business unit, joint venture, or shared service;
- Aligns strategic initiatives;
- Aligns everyone within an organization so that all employees understand how and what they do supports the strategy;
- Provides a basis for compensation; and
- Provides feedback to the senior management if the strategy is working.

Therefore, five principles of successful organizations emerged from Kaplan and Norton’s research on successful balanced scorecard users. These five principles describe the key elements of building an organization able to focus on strategy and deliver breakthrough results. They are:

- Mobilize change through executive leadership;
- Translate the strategy into operational terms;
- Align the organization to the strategy;
- Make strategy everyone's job; and
- Make strategy a continual process.

## **The Review**

To really understand how the balanced scorecard has driven breakthrough results over the long-term, it is instructive to look at the early adopters—the organizations that began using the scorecard back in 1992 and 1993.

Cigna Property and Casualty was losing a million dollars per day in 1992. To fix this hemorrhaging of cash, they introduced a new strategy to reposition themselves as specialists, focusing on key underwriting niches. In 1993, they implemented the balanced scorecard to describe to their organization what it meant to be a specialist. Within two years, Cigna was profitable. Five years later, Cigna sold their property and casualty division for \$3 bn. They went from negative shareholder value to positive \$3 bn in five years.

Mobil's US Marketing and Refining Division was last in their industry profitability in 1993. To address this 'burning platform', they introduced a new strategy and divided their monolithic organization into 18 different business units. The balanced scorecard was used to convey the strategy to these new business units. Each business unit built its own balanced scorecard that was cascaded from the corporate balanced scorecard. Within two years, Mobil had moved from last in their industry to first. They maintained that position for five consecutive years.

Brown and Root, the European subsidiary of Rockwater, was responsible for developing and installing oil platforms in the North Sea. In 1992, they merged the two companies. The companies didn't understand the basis for the merger. The management introduced the balanced scorecard to get them on the same page so that they had a common vision. They introduced a very innovative strategy for segmenting the market into two levels. Within three years, Brown and Root was first in its industry in both growth and profitability.

## **Perspectives**

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

### **The Learning and Growth Perspective**

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people—the only repository of knowledge—are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a

continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools, what the Baldrige criteria call 'high performance work systems'.

### **The Business Process Perspective**

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with unique missions these are not something that can be developed by outside consultants.

### **The Customer Perspective**

Recent management philosophy have shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators—if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even if the current financial picture looks good. In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which a product or service to those customer groups is provided.

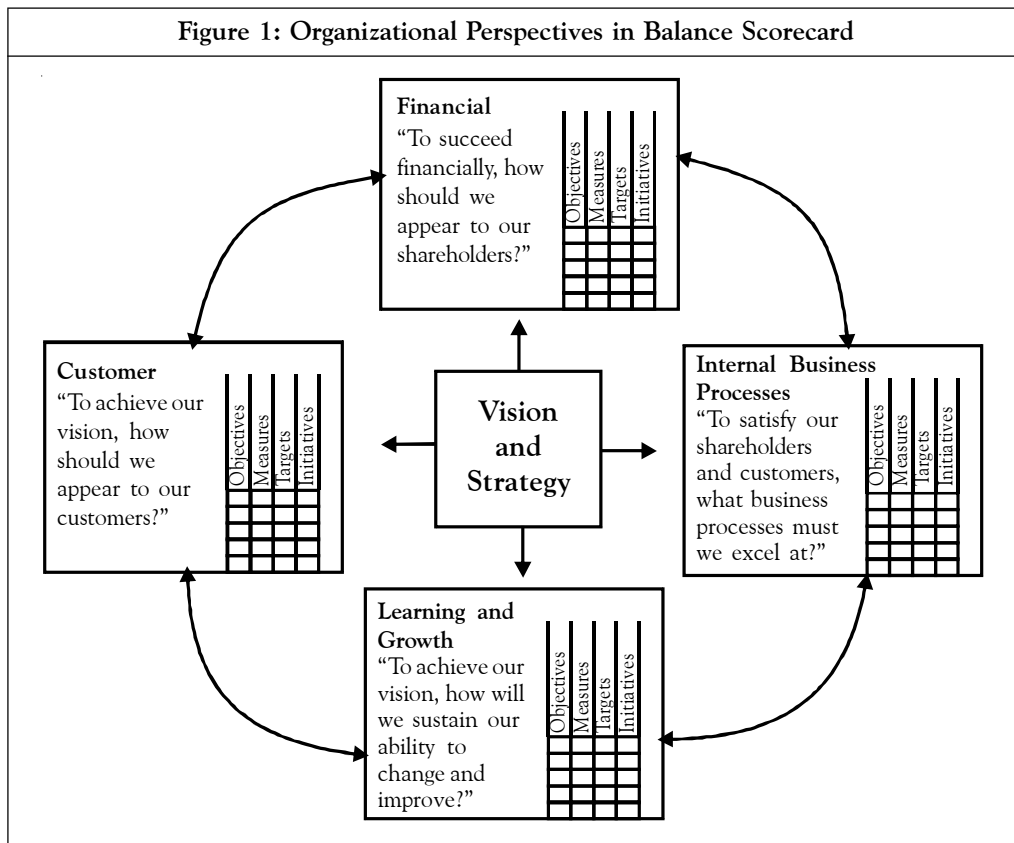
### **The Financial Perspective**

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority with managers doing everything necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. However, the point is that, the current emphasis on financial leads to the 'unbalanced' situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category (Figure 1).

### **The Balanced Scorecard Model**

The following are to be done so as to utilize the balanced scorecard as a strategic management tool:

- The major objectives are to be set for each of the perspectives.
- Measures of performance are required to be identified under each of the objectives which would help the organization to realize the goals set under each of the perspectives. These would act as parameters to measure the progress towards the objectives.



- The next important step is the setting of specific targets around each of the identified key areas which would act as a benchmark for performance appraisal.
- The appropriate strategies and the action plans that are to be taken in the various activities should be decided so that it is clear as to how the organization has decided to pursue the pre-decided goals. Due to this reason, the balanced scorecard is often referred to as a blueprint of the company's strategies.

### Implementing a Balanced Scorecard: Nine Steps to Success

The balanced scorecard helps everyone in an organization understand and work towards a shared vision. A completed scorecard system aligns the organization's picture of the future (shared vision), with business strategy, desired employee behavior and day-to-day operations. Strategic performance measures are used to better inform decision-making and show progress toward desired results. The organization can then focus on the most important things that are needed to achieve its vision and satisfy customers, stakeholders, and employees. Other benefits include measuring what matters, identifying more efficient processes focused on customer needs, improving prioritization of initiatives, improving internal and external communications, improving alignment of strategy and day-to-day operations and linking budgeting and cost control processes to strategy.

Step one of the scorecard building process starts with an assessment of the organization's mission and vision, challenges and values. It also includes preparing a change management plan for the organization.

In step two, elements of the organization's strategy, including strategic results, strategic themes and perspectives, are developed to focus attention on customer needs and the organization's value proposition.

In step three, the strategic elements developed in steps one and two are decomposed into strategic objectives, which are the basic building blocks of strategy and define the organization's strategic intent. Objectives are first initiated and categorized on the strategic theme level, categorized by perspective, linked in cause-effect linkages (strategy maps) for each strategic theme and then later merged together to produce one set of strategic objectives for the entire organization.

In step four, the cause and effect linkages between the enterprise-wide strategic objectives are formalized in an enterprise-wide strategy map. The previously constructed theme strategy maps have merged into an overall enterprise-wide strategy map that shows how the organization creates value for its customers and stakeholders.

In step five, performance measures are developed for each of the enterprise-wide strategic objectives. Leading and lagging measures are identified, expected targets and thresholds are established and baseline and benchmarking data is developed.

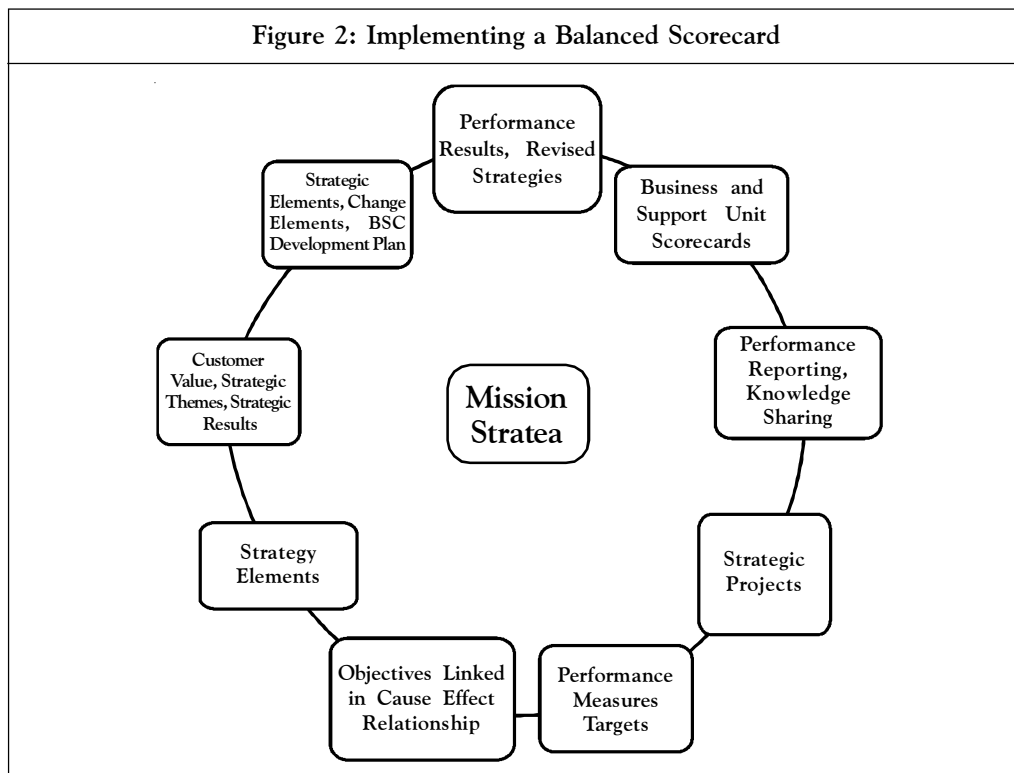
In step six, strategic initiatives are developed that support the strategic objectives. To build accountability throughout the organization, ownership of performance measures and strategic initiatives is assigned to the appropriate staff and documented in data definition tables.

In step seven, the implementation process begins by applying performance measurement software to get the right performance information to the right people at the right time. Automation adds structure and discipline to implementing the balanced scorecard system, helps transform disparate corporate data into information and knowledge and helps communicate performance information. In short, automation helps people make better decisions because it offers quick access to actual performance data.

In step eight, the enterprise-level scorecard is cascaded down into business and support unit scorecards, meaning the organizational level scorecard (the first tier) is translated into business unit or support unit scorecards (the second tier) and then later to team and individual scorecards (the third tier). Cascading translates high-level strategy into lower-level objectives, measures and operational details. Cascading is the key to organization alignment around strategy. Team and individual scorecards link day-to-day work with department goals and corporate vision. Performance measures are developed for all objectives at all organizational levels. As the scorecard management system is cascaded down through the organization, objectives become more operational and tactical, as do the performance measures. Accountability follows the objectives and measures, as ownership

is defined at each level. An emphasis on results and the strategies needed to produce results is communicated throughout the organization.

In step nine, an evaluation of the completed scorecard is done. During this evaluation, the organization tries to answer questions such as, 'Are our strategies working?', 'Are we measuring the right things?', 'Has our environment changed?' and 'Are we budgeting our money strategically (Figure 2)?'



### Balanced Scorecard Benefits

- Make strategy operational by translating strategy into performance measures and targets.
- Helps focus entire organization on what must be done to create a breakthrough performance.
- Integrates and acts as an umbrella for a variety of often disconnected corporate programs, such as quality, reengineering, process redesign and customer service.
- Breaks down corporate level measures so that local managers, operators and employees can see what they must do well in order to improve organizational effectiveness.

The secret of the balanced scorecard and the reason it has gained such wide acceptance is quite simple. It lets organizations reach their full potential. The breakthrough results

of the organizations in the Balanced Scorecard Hall of Fame were created not by new strategies, new people or new processes. Instead, the results were created by focusing the entire organization on the strategy and rewarding people for executing the strategy. The reason behind its popularity is that the organizations have understood the capability this tool has in bringing the desired results to the business by managing the strategies.

Work that was done with a major telecommunications provider is a clear example of the mismatch that is often seen. At the start of the balanced scorecard initiative, the organization was determined that being appreciably superior in customer service was one element of its customer-driven strategy. This strategy was developed before the balanced scorecard was introduced to the organization and banners were hung in call centers throughout the country with slogans such as 'Customers First' and 'Service Matters'; however, customer service levels remained at the same abysmal levels.

Why? This is because the call center employees were measured based on the number of calls that they could process in an hour. This measure drove them to hang up on difficult problems to handle simpler ones, driving customers crazy. After implementing the balanced scorecard, they changed their metric to "percent of problems handled with one call". This completely changed the atmosphere of the call center and allowed the employees to focus on solving problems—increasing morale, customer satisfaction and eventually profits.

## **Limitations**

However, one fact is that it is not easy to implement this tool because it involves a lot of subjectivity. Also, the tool is much more complex compared to the other tools. The measures that need to be taken is contingent upon the kind of environment, industry and the business the organization is in. The tool has tried to fill up the void that exists in most management systems—that is the lack of a systematic process to implement and obtain feedback about the organization's strategy. However, a lot of refinement is still required, so that it becomes understandable to every stakeholder associated with the organization and removing subjectivity to a large extent.

## **Conclusion**

The balanced scorecard is therefore a very important strategic management tool which helps an organization not only to measure performance, but also decide/manage the strategies needed to be adopted/modified so that the long-term goals are achieved. Thus, in other words, the application of this tool ensures the consistency of vision and action which is the first step towards the development of a successful organization. Also, proper implementation can ensure the development of competencies within an organization which will help it in developing a competitive advantage, without which it cannot be expected to outperform its rivals.



## The Future

The balanced scorecard will probably be around, but there will have to be developments. The strategy map is intuitively very appealing and will be used more often in concurrence with the balanced scorecard. Supervisory boards will focus more and more on monitoring and guiding the strategy of a company, using the balanced scorecard. There will be more annual reports that are arranged according to the balanced scorecard. Better ways of measuring the data needed for the balanced scorecard can be derived. "We are experts in what to measure, not in how to measure". Techniques for better measuring innovation, employee capabilities, information system alignment, climate, culture and customer success will certainly improve in the next ten years. Also there will be better information technology and a culture more geared towards using performance management as it matters more to organizations, stakeholders and society. ★

## Bibliography

1. Chandra Prasanna (2001), *Financial Management*, 5<sup>th</sup> Edition, pp. 754-756, Tata McGraw Hill Publishing Company Limited, New Delhi.
2. Cherunilam Francis (2003), *Strategic Management*, 4<sup>th</sup> Edition, pp. 1-5, Himalaya Publishing House, Delhi.
3. Gumbus Andra and Lyons Bridget (2002), "The Balanced Scorecard at Philips Electronics", *Strategic Finance*.
4. Hunger J David and Wheelen Thomas L (2007), *Strategic Management and Business Policy*, Pearson Education Asia, Prentice Hall, 8<sup>th</sup> Edition, pp. 250-251.
5. Kazmi Azhar (2003), *Business Policy and Strategic Management*, 2<sup>nd</sup> Edition, p. 155, Tata McGraw Hill Publishing Company Limited, New Delhi.
6. Kaplan R S and Norton D P (1992), "The Balanced Scorecard – Measures That Drive Performance", *Harvard Business Review*, Vol. 70, No. 1, pp. 71-79.
7. Kaplan R S and Norton D P (1993), "Putting the Balanced Scorecard to Work", *Harvard Business Review*, Vol. 71, No. 5, pp. 134-142.
8. Kaplan R S and Norton D P (1996), *The Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, Boston.
9. Kaplan R S and Norton D P (1996a), "Linking the Balanced Scorecard to Strategy", *California Management Review*, Vol. 39, No. 1, pp. 53-79.
10. Kaplan R S and Norton D P (1996b), "Using the Balanced Scorecard as a Strategic Management System", *Harvard Business Review*, Vol. 74, No. 1, pp. 75-85.

11. Norton David and Kaplan Robert (2001), *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*, Harvard Business School Press, Boston.
12. Schneiderman Arthur M (1999), "Why Balanced Scorecards Fail", *Journal of Strategic Performance Measurement*, January, pp. 6-11.
13. Stata Ray (1989), "Organizational Learning—The Key to Management Innovation", *Sloan Management Review*, Vol. 30, No. 3, pp. 63-74.

Reference # 33J-2009-03-01-01

Copyright of ICFAI Journal of Business Strategy is the property of ICFAI University Press and its content may not be copied or emailed to multiple sites or posted to a listserv without the copyright holder's express written permission. However, users may print, download, or email articles for individual use.